

VZCZCXRO7539

PP RUEHCD RUEHGA RUEHGD RUEHHA RUEHHO RUEHMC RUEHQU RUEHTM RUEHVC

DE RUEHSO #1131/01 2961637

ZNR UUUUU ZZH

P 231637Z OCT 06

FM AMCONSUL SAO PAULO

TO RUEHC/SECSTATE WASHDC PRIORITY 5971

INFO RUEHBR/AMEMBASSY BRASILIA 7032

RUEHRG/AMCONSUL RECIFE 3198

RUEHRI/AMCONSUL RIO DE JANEIRO 7546

RUCNMRC/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS

RUCPDOG/USDOC WASHDC 2600

RUEABND/DRUG ENFORCEMENT ADMIN HQ WASHDC

UNCLAS SECTION 01 OF 02 SAO PAULO 001131

SIPDIS

SENSITIVE

SIPDIS

DEPARTMENT FOR WHA/BSC

E.O. 12958: N/A

TAGS: [PGOV](#) [ECON](#) [KCRM](#) [BR](#)

SUBJECT: AMBASSADOR SOBEL'S MEETING WITH SAO PAULO GOVERNOR-ELECT
JOSE SERRA

REF: SAO PAULO 899

SAO PAULO 00001131 001.2 OF 002

¶1. (SBU) Summary: During an October 18 meeting with Governor-elect Jose Serra, Ambassador Sobel stressed the USG's interest in working with the state government on public security issues. Serra acknowledged that crime is a major challenge facing his administration and that there are many possibilities for cooperation. In discussing the political situation, Serra said President Lula is likely to be re-elected but that a surprise result is still possible. He criticized Lula's economic policies, highlighting the negative effects of the strong currency, and predicted Lula would have a difficult time in a second term. End Summary.

¶2. (U) The Ambassador told Serra he had met in August with Governor Claudio Lembo (reftel) and had discussed the state's problems with drugs, guns, and gangs. Lembo requested USG assistance in the area of public security. Subsequently, the Consulate organized a roundtable with experts from academia, police and security agencies to discuss the issue. The Ambassador indicated that the USG has training and assistance programs with the federal government, and that it can also work directly with the state. He noted that the USG has expertise in a variety of areas, including combating gangs in the prison system, from which Sao Paulo state might benefit.

¶3. (U) The Ambassador asked if Serra would like to meet with DEA Administrator Tandy when she visits Sao Paulo. Serra said he would if he is in town during her visit. In a future trip to Washington, Serra said he plans to meet with the World Bank and the IDB, among others. (Note: The World Bank is supporting a public-private partnership project to expand Sao Paulo's subway system. End note.) Serra commented that although the federal government has primary responsibility for combating drug trafficking and organized crime, there are huge opportunities for cooperation at the state level. Drugs, weapons, and illegal trade (contraband and piracy) are among the major challenges facing his administration.

¶4. (SBU) The Ambassador also asked Serra for his views on the election. Serra replied that the most recent poll, showing President Lula with a 20-point lead over ex-Governor Alckmin, was not good, but that there was some volatility in the numbers. Furthermore, Lula's Workers Party (PT) has people who are "experts in surprises." They had ginned up a "dossier" against him, and it had boomeranged on them, resulting in a major scandal. They (the PT) also made a big mistake in trying to establish direct relations between the party and the federal police, which could yet come back to haunt them. In short, the election isn't over yet.

¶5. (SBU) Serra said that Lula, if re-elected, will have a difficult time dealing with Congress. He will need to pass Constitutional amendments to re-authorize two important measures: a tax on financial transactions and an entitlements bill. Serra criticized Lula's economic policy, saying that Brazil needs to grow in order to reduce its debt. The overvaluation of the currency is "a disaster," he said. Lula's popularity, in Serra's view, derives not so much from the "Bolsa Familia" assistance program or the increase in the minimum wage as it does from the low price of food, which is one effect of the strong currency. At the same time, agricultural exports are hurt and the sector is in crisis. According to Serra, there is a possibility of inflation next year. The overvalued Real also makes it difficult for the states, which are in a tight fiscal situation, to get financing for major infrastructure projects, such as roads and public transportation. Lula will also encounter legal problems deriving from the scandals as some forty leaders of his party remain under investigation.

¶6. (SBU) Ambassador Sobel asked if Lula may try to create a grand coalition with Serra's Social Democracy Party of Brazil (PSDB) and other opposition parties, enabling him to pass legislation. Serra opined that such a coalition may be possible in theory but very difficult to accomplish in practice, especially with municipal elections coming up in 2008. For his own part, Serra said he will "not start a war" between the state and federal governments, but does not expect the relationship to be easy.

¶7. (SBU) Asked to recommend members of Congress with whom the Ambassador should meet, Serra suggested Senator Sergio Guerra of Pernambuco (who is coordinating Alckmin's campaign) and Senator Arthur Virgilio from the State of Amazonas who is the PSDB leader in the Senate.

¶8. (U) This cable was coordinated with Embassy Brasilia and cleared by Ambassador Sobel.

SAO PAULO 00001131 002.2 OF 002

MCMULLEN